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UNCLAS SECTION 01 OF 03 DJIBOUTI 000796

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SUBJECT: DJIBOUTI INAUGURATES FREE ZONE WITH SUPPORT FROM
DUBAI INTERNATIONAL

REF: DJIBOUTI 597

1. (U) Summary: Djibouti and its United Arab Emirates investor, Dubai International (DI), inaugurated June 5 the new Djibouti Free Zone (DFZ) with the participation of President Guelleh, cabinet officials, heads of diplomatic missions, and potential DFZ investors. The project, billed "the first of its kind in Africa," is expected to change Djibouti's economic face and create a virtual Dubai in the Horn of Africa. Ambitious to some, and a saving grace to others, the project -- along with the new Doraleh port coming on line in 2005 -- is seen as the gateway for trade to the African continent. The DFZ offers pre-built warehouse units, open storage sheds, and land plots with benefits to include 100 per cent foreign ownership, the absence of corporate taxes, duties, and currency restrictions, 100 percent repatriation of capital and profits, world class management practices, professional administrative support, and good quality logistics infrastructure. Fifty-eight per cent of available warehouse space has been leased in the project's first phase, with Phase II and III to be completed by 2006. End summary.

The Compatibility Factor

2. (U) Djibouti launched its 17-hectare Free Zone on June 5. The zone, billed as the first of its kind in Africa, will be under the guidance and management of Jebel Ali Free Zone International (JAFZI) in the United Arab Emirates (UAE). Applicants for space in the project are being offered the choice of warehouse units built to standards of those in Jebel Ali, or a plot of land on which to build their own customized facility. JAFZI is touting the compatibility of warehousing, storage, distribution, light manufacturing and value-added activities of DFZ with Common Market for Eastern and Southern Africa (COMESA) rules of origin and the Africa Growth and Opportunity Act (AGOA) trade agreement.

Incentives and Benefits

3. (U) Incentives and benefits offered by the DFZ will largely mirror those at Jebel Ali and will include, but not be limited to, 100 percent foreign ownership, the absence of corporate taxes, duties, and currency restrictions, 100 per cent repatriation of capital and profits, world class management practices, professional administrative support, and quality logistical infrastructure. Dubai-produced promotion material for the project highlighted the "pro-business attitude of Djibouti in developing a diversified and self-sufficient economy" and the intent of the DFZ "to provide business investors in Africa with a platform from which to tap in to the potential of the African market." Djibouti's port and international airport (both currently managed by Dubai Ports International-DPI), plus the highway and rail link directly to Ethiopia's capital, and the soon-to-be completed new port and oil terminal at Doraleh, 7 kilometers from Djibouti port, would support the DFZ.

Optimism from Investors

4. (U) The President of Djibouti, Ismail Omar Guelleh, Prime Minister of Djibouti, Dileita Mohamed Dileita, President of the Djiboutian National Assembly, Idriss Arnaoud Ali, Executive Chairman of Ports, Customs and Free Zone Corporation (the global parent of DPI and JAFZI), Sultan Bin Sulayem, the Executive Chairman of PCFC, Managing Director of Dubai International (DI), Mohammed Sharaf, and key Djiboutian investor Abdurahman Boreh participated in the inaugural event. Also attending were a host of Djiboutian cabinet ministers, Djiboutian military leaders, members of parliament, heads of missions accredited to Djibouti and business persons from both Djibouti and the UAE. Ambassador and USLO represented Embassy Djibouti.

5. (U) In remarks at the inauguration, DI Managing Director

Sharaf noted his objective to create an international network of free zones as a step towards enhancing Dubai's leading position in business. In Djibouti, he said, a strong logistical free zone similar to Jebel Ali could service the African continent. He told the assembled guests that 58 per cent of the existing warehouse space at DFZ had been leased with a further 8 per cent under option. Forty-six per cent of current participants, Sharaf said, were from Dubai, 46 per cent from Djibouti, and 8 per cent from Ethiopia. He also said the high demand for facilities and services had prompted a phase two development which would include an additional 34 leased warehouse units and a 9,100 square meters short storage warehouse for humanitarian aid cargo. Phase III of the project, to be implemented in 2006, will include 25 warehouses and a new 64-unit office complex for trading and service sectors. Sharaf said Phase III would dovetail with the new Doraleh port which would be fully on line by then.

16. (U) In his speech, Abdurahman Boreh said the DFZ is part of the vision of President Guelleh to create a world class port and free zone in Djibouti. The aim is to take advantage of services for income generation, as there is no other option, given the country's lack of resources. He said Djibouti wants to attract quality foreign investment and described the hope and progress he saw in the new Doraleh port.

Vision, Success, and the Government's Commitment

17. (U) Sultan Sulayem said the DFZ began "as a result of a vision." In addition, the success of DPI in managing both Djibouti's port and international airport "has given us the confidence to start other projects in Djibouti". He mentioned the work of Han-Padron, a U.S. engineering consulting firm, which is preparing a master study for DI on the city of Djibouti, covering its airport, port, free zones and power and water needs. Sulayem said it is important to ensure the success of what is being done in Djibouti. Results of the study will be initially presented to DI in November, 2004 and in final form in January 2005. Sulayem also said plans are afoot to develop a 400-room five-star hotel in Djibouti, as well as 100 luxury villas and 500 apartments.

18. (U) In his turn, President Guelleh spoke of the strong relations between Djibouti and the UAE over the years. He said Djibouti wants to play a principal role in Africa and it is important to develop Djibouti and to get others to invest. He invited those listening to "invest in this brotherly country" and reaffirmed the Government of Djibouti's commitment to provide all necessary facilities.

Comment

19. (U) Comment: After the inauguration, Abdurahman Boreh hosted a lunch for the visiting entourage and potential participants. The event reportedly secured commitment to the project from a number of UAE and Djiboutian business persons. That commitment was conditioned, Post was told, on DPI's continued management and operation of the DFZ as well as Djibouti's air and sea ports. Post notes that DPI has managed and operated the International Airport since 2002 and the existing Djibouti Port since 2000.

110. (SBU) Comment continued: Post is increasingly optimistic about the economic possibilities for Djibouti as a result of this project. We also want to share as much information as possible about it with American business. ConGen Dubai may receive inquiries on this project and we believe DI can provide the necessary detail. Much of the activity surrounding the DFZ is being driven by Abdurahman Boreh, the hard-charging, pragmatic, and results-oriented Djiboutian businessman with close ties to President Guelleh. Boreh is frequently in Dubai and owns a residence there. He supports the view that the Dubai link will be Djibouti's renaissance, creating much-needed jobs, investment opportunities and economic diversification. On job creation, the lingering question is whether the skill sets of Djibouti's work force will be sufficient to take advantage of job opportunities created by the DFZ or by the Doraleh port project. End comment.

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